



AUDITED FINANCIAL STATEMENTS
AND
OTHER INFORMATION

Years ended December 31, 2017 and 2016

ALBANY PORT DISTRICT COMMISSION

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ALBANY PORT DISTRICT COMMISSION

Management's Discussion and Analysis

The following discussion and analysis (MD&A) of the activities and financial performance of the Albany Port District Commission ("APDC" or the "Port") is offered as an introduction and overview of the financial statements of APDC for the fiscal year ended December 31, 2017, with comparative data for the fiscal year ended December 31, 2016. Following this MD&A are the basic financial statements of APDC together with the notes thereto which are essential to a full understanding of the data contained in the financial statements. In addition to the notes, certain supplementary information is presented to assist with the understanding of the APDC's financial operations.

APDC is governed by a five member Board of Commissioners ("Board"). All Commissioners are appointed by the Governor of New York State based upon recommendations of the Mayors of Albany and Rensselaer. The Board has adopted several policies as required under the Public Authorities Accountability Act ("PAAA") of 2005 and the Public Authorities Reform Act ("PARA") of 2009, enhancing transparency and embracing best governance practices.

The APDC Finance Committee meets on a quarterly basis or more frequently if necessary to review project and transactional analysis. As necessary, the Committee makes recommendations for consideration by the Board. On a monthly basis, the Board meets to discuss infrastructure needs, project activity and progress, maritime activity performance and the APDC's financial position and performance. Additionally, the APDC Audit Committee, without management present, independently meets with the external auditors to discuss relevant issues and concerns.

INTRODUCTION

In 1925 the Albany Port District Commission was established through an act of the New York State Legislature ("Enabling Legislation"). The Enabling Legislation granted broad authority to the APDC to develop, construct, and manage a maritime facility. During the succeeding decades, the APDC developed into a year-round, twenty-four hour operation encompassing nearly 300 acres within two municipalities, directly and indirectly employing hundreds of men and women and generating hundreds of millions of dollars in regional and state-wide economic output.

Stevedoring services are provided by Federal Marine Terminals, Inc. ("FMT"). Through a Terminal Operating Agreement ("TOA") between APDC and FMT, FMT is authorized to manage a portion of APDC property for general cargo and commodity handling and to conduct various activities related to vessel servicing. Under the TOA, FMT is obligated to make monthly payments to APDC ("Base Payments"). Additionally, upon achieving certain gross revenue thresholds, FMT is also obligated to pay a percentage of gross revenue to APDC ("Revenue Share Payments").

The APDC strives to responsibly and effectively manage the publicly-owned maritime Port of Albany-Rensselaer, driving the economy of Capital Region and beyond while emphasizing transparency and public stewardship. The APDC's mission consists of three main tenets:

- Effective Management of the Public's Asset.
- Economic Contribution to the Region.
- Integrity, Professionalism and Customer Service.

Through the execution of this mission, APDC has emerged as an award-winning, multi-faceted organization offering world-class facilities and services with a global economic influence.

Major initiatives undertaken during 2016 continued in 2017. These initiatives will generate new investment in APDC facilities, expand the APDC through property acquisition and identify business opportunities for the future. Additionally, in 2017 certain operating enhancements were developed to address key elements of the APDC's mission.

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Management's Discussion and Analysis

ENVIRONMENTAL STEWARDSHIP

The APDC views its commitment to the environment as among its most mission-critical endeavors. Demonstrating this commitment to reducing its environmental footprint, in 2015, the APDC became the first port in New York State to join Green Marine, a transparent and metric-driven environmental certification program for the maritime industry. During 2017, following a third-party review, the APDC proudly received Green Marine's certification demonstrating a commitment to the continual, rigorous and measureable improvement in environmental safety practices.

INFRASTRUCTURE INVESTMENT

Following the selection and engagement of a construction firm and an engineering firm during the first quarter of 2017, construction began on the reconstruction of approximately 840 feet of the southern wharf on the western side of the facility. When complete, the wharf will feature a roll-on, roll-off ramp ("RoRo"). The RoRo will create greater capacity for the movement of heavy lift/project cargo and over-dimensional cargo; possibly reducing cargo transport via rail or road. This feature coupled with the enhanced weight capacity of the new wharf has been designed with the APDC's manufacturing customers in mind to ensure the facility remains world-class and ready to accommodate customers' needs.

Construction has commenced on a climate-controlled, secure and modern facility comprised of approximately 45,000 square feet. This facility will meet the current and anticipated logistics and storage needs of heavy lift/project cargo manufacturers and shippers. The facility is anticipated to be placed into service during the second quarter of 2018.

In August 2016, the APDC was awarded nearly \$18 million of funding through the Transportation Investment Generating Economic Recovery ("TIGER") program. This program, administered by the United States Department of Transportation ("USDOT"), will provide funding to support strategic maritime terminal improvements. During the second quarter of 2017, the APDC executed a grant agreement to facilitate grant funding under this program.

By successfully attracting federal and state sources these new infrastructure and facility investments will result in approximately \$50 million of planned new construction over the next three years. This represents a level of investment and construction activity not seen since the June 1932 dedication of the Port by Governor Franklin D. Roosevelt. Upon completion this will result in an updated facility designed to meet the needs of current and future customers.

STEVEDORING

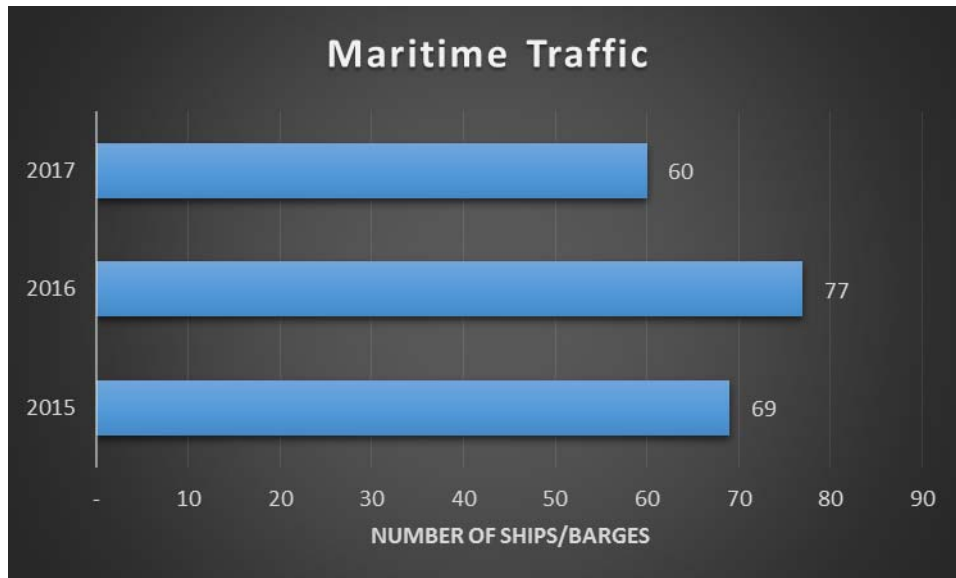
Since the mid-1990s FMT has served as the stevedore at the APDC and with their experience and expertise they are a valued partner of the APDC. During 2017, the APDC and FMT undertook negotiations with the intention of entering into a new long-term agreement. The goal of the agreement is to develop updated financial and operational terms that reflect not only the two-decade plus partnership but also the millions of dollars of investment in APDC facilities.

EXPANSION

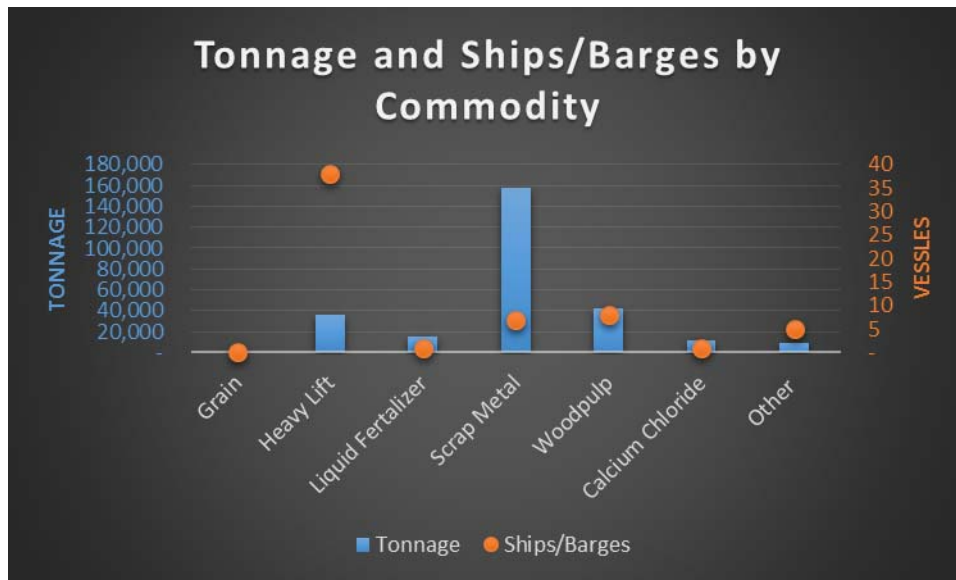
The APDC has identified an 80-acre site adjacent to the Port's southeastern border in the town of Bethlehem, NY for a possible expansion opportunity. Through an RFP, an engineering firm was selected and completed initial due diligence on the site during the first half of 2017 at a cost of approximately \$145,000. Subsequently, an offer to purchase the site for \$5.25 million was accepted. When closed, this acquisition will increase the APDC's acreage by more than 25% to nearly 400 acres located in three municipalities.

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Management's Discussion and Analysis**

MARITIME-RELATED ACTIVITY



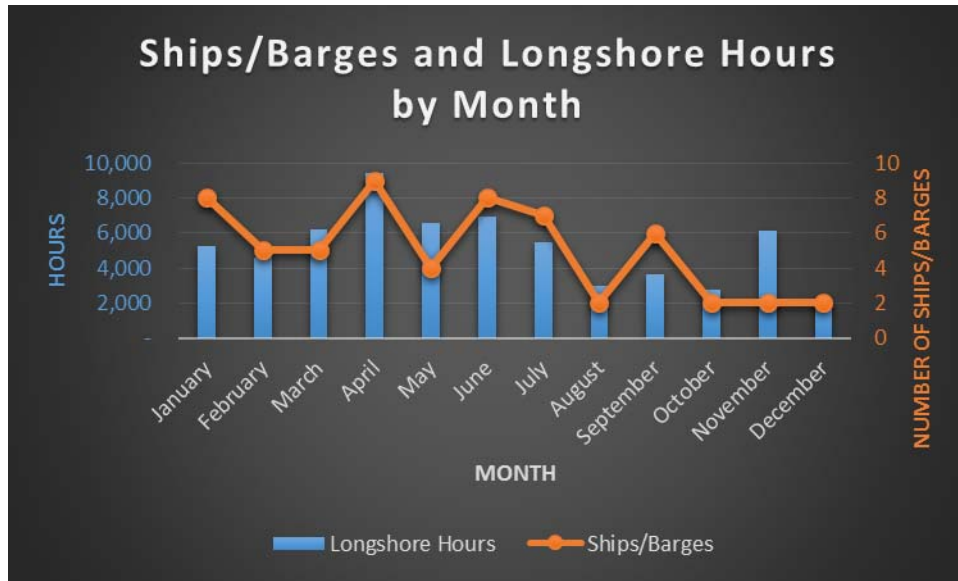
- During 2017, fewer ships and barges called on the Port of Albany (a 22% decrease from 2016); however, on a per vessel basis, longshore hours worked increased by 78%. This metric is important as it demonstrates the economic value and job opportunities created by the Port's activity.



- In 2017, scrap metal was the highest-volume commodity in terms of tonnage by a substantial margin, representing almost 60% of total tonnage for the year. Although seven vessels called on the Port to load scrap metal for export, the per vessel tonnage is substantially higher than the other categories of commodities. Scrap metal shipments yielded an average tonnage per vessel of just over 22,500 tons, over four times the average tonnage for woodpulp.

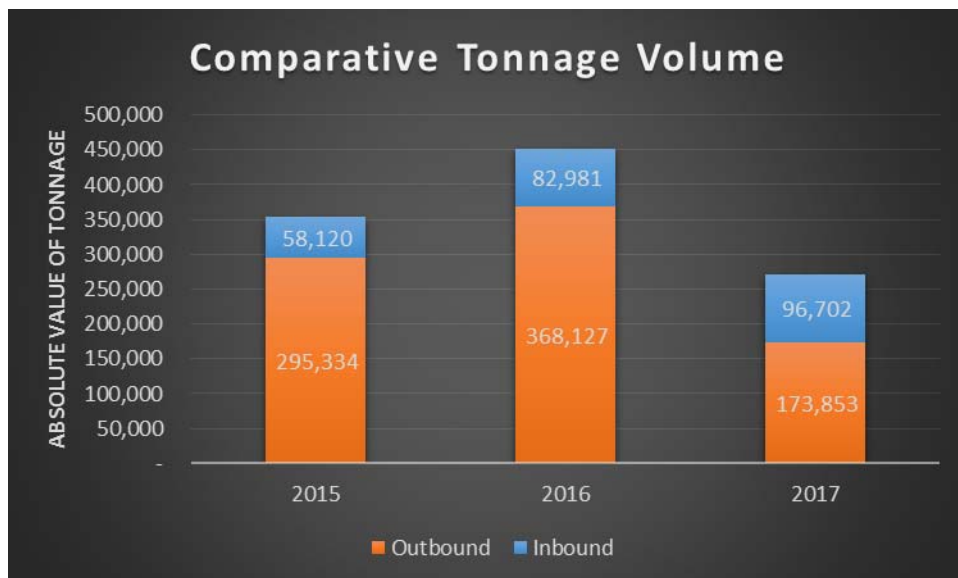
ALBANY PORT DISTRICT COMMISSION Management's Discussion and Analysis

- Heavy lift activity represents approximately 13% (36,000 tons) of 2017 tonnage. As a function of ship/barge traffic; however, 63% of all cargo-carrying ship and barge calls in 2017 fell into this category.
- Longshore hours worked in 2017 exceed the number of hours worked in 2016 by over 17,000 hours; an increase of almost 40%.



Graphical representations of the APDC's tonnage and longshore hours through December 31, 2015, 2016, and 2017 is shown below:

- Although overall tonnage experience a decline from 2016, inbound cargo tonnage in 2017 represents a 3-year high and is an approximately 17% increase over 2016.
- The most significant decrease in tonnage for 2017 was grain. During 2017, there was a precipitous drop in grain exporting activity resulting in no ships or tonnage during the year.



ALBANY PORT DISTRICT COMMISSION
Management's Discussion and Analysis



FINANCIAL OPERATIONS HIGHLIGHTS

A condensed summary of revenues and expenses for the years ended December 31, 2017 and 2016 is shown below.

	2017	2016
OPERATING REVENUES		
Property and equipment rentals	\$ 3,692,105	\$ 3,373,543
Maritime-related	1,335,224	1,058,472
Security	508,573	390,409
Other operating revenues	186,870	206,550
Total operating revenues	<u>5,722,772</u>	<u>5,028,974</u>
OPERATING EXPENSES		
Payroll and related expenses	2,633,068	2,614,316
Maintenance and material handling	361,818	267,119
Professional services	489,801	668,512
Other operating expenses	491,556	429,129
Total operating expenses	<u>3,976,243</u>	<u>3,979,076</u>
OPERATING INCOME	1,746,529	1,049,898
Depreciation and other items	<u>(2,281,042)</u>	<u>(2,681,901)</u>
CHANGE IN NET POSITION BEFORE CAPITAL FUNDING	(534,513)	(1,632,003)
Capital grant funding	<u>7,836,141</u>	<u>610,591</u>
INCREASE (DECREASE) IN NET POSITION	7,301,628	(1,021,412)
Total net position, beginning of year	<u>44,031,496</u>	<u>45,052,908</u>
Total net position, end of year	<u><u>\$ 51,333,124</u></u>	<u><u>\$ 44,031,496</u></u>

ALBANY PORT DISTRICT COMMISSION

Management's Discussion and Analysis

Operating Revenue increased by approximately \$700,000 or 14% from 2016.

The increase in 2017 operating revenues is primarily the result of additional revenue generated from FMT's utilization of the APDC's mobile harbor cranes, stevedore activity and security fees. Property rental revenue was virtually flat from 2016 as certain available parcels remained vacant in 2017. As a category, in 2017 property rentals comprise 65% of APDC's operating revenue and acts as a stabilizing revenue source to offset the variability within the other sectors.



- Dockage Fees are charged for vessels that are utilizing berths and are based upon either the length or net registered tonnage of the vessel. Fees for dockage increased by approximately \$24,000 or 6%. Although the number of ship and barge calls decreased from 2016 to 2017 in nearly every commodity category, the increase in dockage revenue is noteworthy, particularly within the heavy lift/project cargo category. Despite this category experiencing nine fewer ship and barge calls in 2017, revenue from dockage fees increased by approximately \$121,000. This increase is attributable to several heavy lift/project cargo vessels for certain calls having a higher NRT that that which is typical for vessels in this commodity category in concert with longer calls for certain vessels.
- Wharfage Fees decreased by \$31,000 or 7% from 2016. Grain underperformed in 2017 as compared to 2016, generating approximately \$84,000 less wharfage revenue. This decrease was partially offset by increases in wharfage fees generated by heavy lift/project cargo and scrap metal. These categories exceeded 2016 by 23% and 22%, respectively. Calcium Chloride generated almost \$20,000 in wharfage fees during 2017 as compared to \$0 in 2016.
- Stevedore Fees more than doubled from \$150,000 in 2016 to \$367,000 in 2017. Revenue Share Payments received from FMT increased by just over \$217,000. Although not captured in the APDC's financial performance, a corollary to this increase is evidenced by the number of longshore hours worked in 2017 as compared to 2016. Longshore hours worked increased by over 17,000 hours; from 45,000 hours in 2016 to 62,000 hours in 2017.
- Revenue derived from crane and equipment rentals increased by \$307,000 from \$175,000 in 2016 to \$482,000 in 2017. This is attributable to an increase of approximately 878 hours of crane utilization by FMT in 2017 for maritime terminal operations. APDC charges an hourly rate to FMT for crane usage.

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- The Maritime Transportation Security Act of 2002 ("MTSA") established certain requirements related to terminal access and vessel security for U.S. ports. The majority of Security Fees received by the APDC are based upon practices and protocols required under the APDC's Facility Security Plan, which was designed and implemented under the MTSA. Revenue for Security Fees was \$509,000 in 2017 as compared to \$390,000 in 2016; an increase of \$118,000 or 30%.

Operating expenses in 2017 overall remained virtually flat from 2016; however, certain categories have significant variances.



- Professional and Consulting Fees were approximately \$173,000 (41%) lower in 2017 as compared to 2016.
- Maintenance Expense increased by \$62,000 (37%) to \$231,000 from \$169,000 in 2016. This increase is driven primarily by an escalation of the service contract used to support the Port's security technology.
- Material Handling increased by \$33,000 or 33%. Expenses for parts and supplies of the Port's fork truck fleet increased by approximately \$14,000 and repairs related to the two mobile harbor cranes increased by \$5,500.
- Other Operating Expenses increased by just under \$62,500.

ALBANY PORT DISTRICT COMMISSION

Management's Discussion and Analysis

A condensed summary of APDC's net position at December 31, 2015, 2016, and 2017 is shown below:

Total net position has increased by approximately \$7.3 million from December 31, 2016 to December 31, 2017.

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Assets and Deferred Outflows of Resources			
Current and other assets	\$ 5,535,455	\$ 6,137,429	\$ 12,715,759
Capital assets	44,766,415	42,937,259	48,953,855
Deferred outflows of resources	251,527	594,722	238,854
Total assets and deferred outflows of resources	<u>\$ 50,553,397</u>	<u>\$ 49,669,410</u>	<u>\$ 61,908,468</u>
Liabilities			
Current liabilities	\$ 1,124,733	\$ 901,157	\$ 2,666,962
Long-term liabilities	4,375,756	4,661,543	7,848,105
Deferred inflows of resources	-	75,214	60,277
	<u>\$ 5,500,489</u>	<u>\$ 5,637,914</u>	<u>\$ 10,575,344</u>
Net Position			
Invested in capital assets, net of related debt	\$ 42,209,673	\$ 40,823,615	\$ 43,254,662
Unrestricted	2,843,235	3,207,881	8,078,462
Total net position	<u>\$ 45,052,908</u>	<u>\$ 44,031,496</u>	<u>\$ 51,333,124</u>

CURRENT KNOWN FACTS, DECISIONS OR CONDITIONS

- During the second quarter of 2018, a request-for-proposals ("RFP") will be issued for demolition of a transit shed and design and construction of a new 58,000 square foot warehouse.
- Moffatt and Nichol were selected during Q4 of 2017 to develop an implementation plan to comprehensively coordinate projects and construction activity. Work under this engagement commenced during the first quarter of 2018.
- A new \$4 million sub-lease under the existing master lease with Bank of America was executed in November 2017. This sub-lease carries a seven-year term and a fixed rate of 2.72%. Certain APDC-owned equipment assets will serve as collateral under the terms of the sub-lease.
- An engineering and consulting firm was selected during Q1 of 2018 to continue pre-development analysis of the Bethlehem site. Among the deliverables for this engagement is a feasibility study and other related tasks. The cost of the engagement is not expected to exceed \$200,000.
- Federal and state funding opportunities will continue to be pursued to address not only existing infrastructure needs but also to develop new infrastructure in response to emerging trends within the maritime and transportation logistics industries.

FINANCIAL STATEMENTS

APDC's financial statements are prepared on an accrual basis in accordance with U.S. generally accepted accounting principles promulgated by the Government Accounting Standards Board (GASB). Revenue is recognized when earned, not when received and expenses are recognized when incurred, not when they are paid. Capital assets are capitalized and (except land) are depreciated over their useful lives.

ALBANY PORT DISTRICT COMMISSION
Management's Discussion and Analysis

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of APDC's financial condition. Questions concerning the information provided in this report may be addressed in writing to:

Albany Port District Commission
106 Smith Boulevard
Albany, NY 12202

INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Albany Port District Commission

We have audited the accompanying financial statements of Albany Port District Commission (a component reporting unit of the City of Albany) as of December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Albany Port District Commission, as of December 31, 2017 and 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information: Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information: Our audits were conducted for the purpose of forming opinions on the financial statements of the Albany Port District Commission's basic financial statements. The Schedules of Payroll and Related Costs and Other Operating Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedules of Payroll and Related Costs and Other Operating Expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2018 on our consideration of the Albany Port District Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Albany Port District Commission's internal control over financial reporting and compliance.

UHY LLP

Albany, New York
March 26, 2018

ALBANY PORT DISTRICT COMMISSION
STATEMENTS OF NET POSITION
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,804,608	\$ 2,371,583
Investments	3,320,703	3,296,761
Accounts receivable	254,373	321,459
Grants receivable	4,109,759	113,622
Other current assets	<u>226,316</u>	<u>34,004</u>
Total current assets	12,715,759	6,137,429
NET PROPERTY AND EQUIPMENT	<u>48,953,855</u>	<u>42,937,259</u>
Total assets	61,669,614	49,074,688
DEFERRED OUTFLOWS OF RESOURCES	<u>238,854</u>	<u>594,722</u>
	<u><u>\$ 61,908,468</u></u>	<u><u>\$ 49,669,410</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 805,266	\$ 452,527
Deferred revenue	62,685	24,749
Accounts payable	1,482,092	91,594
Accrued expenses	239,919	255,287
OPEB obligation, current portion	<u>77,000</u>	<u>77,000</u>
Total current liabilities	2,666,962	901,157
LONG-TERM LIABILITIES		
Long-term debt, net of current maturities	4,893,927	1,661,117
Security deposits	127,099	127,098
OPEB obligation, net of current portion	2,475,472	2,238,790
Net pension liability	<u>351,607</u>	<u>634,538</u>
Total long-term liabilities	7,848,105	4,661,543
Total liabilities	10,515,067	5,562,700
DEFERRED INFLOWS OF RESOURCES	<u>60,277</u>	<u>75,214</u>
NET POSITION		
Net investment in capital assets	43,254,662	40,823,615
Unrestricted	<u>8,078,462</u>	<u>3,207,881</u>
Total net position	51,333,124	44,031,496
	<u><u>\$ 61,908,468</u></u>	<u><u>\$ 49,669,410</u></u>

See notes to financial statements.

ALBANY PORT DISTRICT COMMISSION
STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION
Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Property rentals	\$ 3,210,155	\$ 3,198,858
Dockage fees	438,410	414,772
Wharfage fees	400,746	432,107
Stevedore fees	496,068	211,593
Crane/equipment rentals	481,950	174,685
Security fees	508,573	390,409
Storage and other services	186,870	206,550
	<u>5,722,772</u>	<u>5,028,974</u>
OPERATING EXPENSES		
Payroll and related benefit costs	2,633,068	2,614,316
Maintenance expense	230,651	168,559
Material handling	131,167	98,560
Insurance	239,073	245,166
Professional and consulting fees	250,728	423,346
Other operating expenses	491,556	429,129
	<u>3,976,243</u>	<u>3,979,076</u>
OPERATING INCOME, BEFORE DEPRECIATION AND OTHER ITEMS	<u>1,746,529</u>	<u>1,049,898</u>
DEPRECIATION AND OTHER ITEMS		
Depreciation	(2,008,017)	(2,018,463)
Waterfront development costs	(250,256)	(243,168)
Municipal support agreement costs	-	(400,000)
Interest income	30,645	29,398
Interest expense	(53,414)	(49,668)
	<u>(2,281,042)</u>	<u>(2,681,901)</u>
CHANGE IN NET POSITION BEFORE CAPITAL FUNDING	<u>(534,513)</u>	<u>(1,632,003)</u>
Capital grant funding	7,836,141	610,591
CHANGE IN NET POSITION	7,301,628	(1,021,412)
Total net position, beginning of the year	<u>44,031,496</u>	<u>45,052,908</u>
Total net position, end of year	<u>\$ 51,333,124</u>	<u>\$ 44,031,496</u>

See notes to financial statements.

ALBANY PORT DISTRICT COMMISSION
STATEMENTS OF CASH FLOWS
Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from rentals	\$ 3,700,129	\$ 3,382,243
Cash received for facility usage	1,431,480	1,096,661
Cash received from other services	695,443	596,959
Cash payments to employees and professionals	(2,556,928)	(2,505,438)
Cash payments for materials and maintenance	(429,931)	(198,846)
Cash payments for insurance	(440,694)	(41,829)
Cash payments for other expenses	(494,803)	(425,137)
Net cash provided by operating activities	<u>1,904,696</u>	<u>1,904,613</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash payments for municipal support agreement costs and waterfront development costs	(250,256)	(243,168)
Net cash used in noncapital financing activities	<u>(250,256)</u>	<u>(243,168)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash payments for capital assets	(6,598,704)	(564,115)
Cash received from capital grant funding	3,840,004	506,969
Interest expense	(52,893)	(48,550)
Cash received from long-term debt and other obligations	4,000,000	-
Cash payments on long-term debt and other obligations	(414,451)	(443,098)
Net cash used in capital and related financing activities	<u>773,956</u>	<u>(548,794)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received from interest	28,571	30,210
Cash paid for purchase of investments	(4,296,869)	(1,836,878)
Cash received from sale of investments	4,272,927	1,808,204
Net cash provided by investing activities	<u>4,629</u>	<u>1,536</u>
Net change in cash	2,433,025	1,114,187
Cash, beginning of year	<u>2,371,583</u>	<u>1,257,396</u>
Cash, end of year	<u>\$ 4,804,608</u>	<u>\$ 2,371,583</u>
RECONCILIATION OF OPERATING INCOME, BEFORE DEPRECIATION AND OTHER ITEMS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income, before depreciation and other items	\$ 1,746,529	\$ 1,049,898
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in:		
Accounts receivable	67,086	42,106
Other assets	(190,238)	201,592
Accounts payable	(35,411)	37,947
Accrued expenses	(15,888)	63,944
Deferred revenue	37,936	4,783
OPEB obligation	236,682	263,739
Net pension related accounts	58,000	240,604
Total adjustments	<u>158,167</u>	<u>854,715</u>
Net cash provided by operating activities	<u>\$ 1,904,696</u>	<u>\$ 1,904,613</u>

See notes to financial statements.

ALBANY PORT DISTRICT COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 1 — ORGANIZATION AND STATUTORY COMMISSION

The Albany Port District Commission (the Commission) was established in 1925 under Chapter 192 of the Laws of the State of New York. The law, as amended, grants the Commission regulatory powers over the development and operations of the facilities of the Albany Port District. The Commission, a Public Corporation with perpetual existence, has the power to construct, develop and operate Port facilities, including a terminal railroad; to fix fees, rates, rentals and other charges for its facilities; to regulate and supervise the construction and operations of the Port facilities by private enterprise; to issue bonds and notes; and to do all other things necessary to make the Port useful and productive. The Commission also has the right of eminent domain.

The Laws of 1925 provide that the municipalities of Albany and Rensselaer be assessed for the Commission's deficit, if any, which might result from operations and financing. A 1932 reapportionment determination established rates for this purpose which approximate 88 percent for Albany and 12 percent for Rensselaer. Although rates are subject to change under the provisions of the law, in recent years there have been no such assessments.

The Commission is a component reporting unit of the City of Albany and, as such, is included in the City's general purpose financial statements.

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The Commission follows the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" and GASB Statement No. 37 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus." Statement 34, as amended by Statement 37 and Statement 63, establishes standards for external reporting for all state and local government entities. It also requires the classification of net position into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Net Investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted – This component of net position, when applicable, consists of restrictions placed on fund equity use through external constraints imposed by creditors (such as through debt covenants), by law or regulation, or through enabling legislation. No component of net position was classified as restricted at either December 31, 2017 and 2016.
- Unrestricted – This component of net position consists of fund equity that does not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Basis of Accounting: The accompanying financial statements have been prepared in conformity with generally accepted accounting principles for governmental entities, as prescribed by GASB. In accordance with the provisions promulgated by GASB, the Commission has elected not to apply Financial Accounting Standards Board (FASB) pronouncements and interpretations issued after November 1989.

ALBANY PORT DISTRICT COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued): The operations of the Commission are reported as a proprietary fund and, as such, are accounted for on a flow of economic resources measurement focus under the accrual basis of accounting. Within this measurement focus, all assets and liabilities associated with operations are included on the balance sheet with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

Cash and Cash Equivalents: The Commission considers all liquid investments with an original maturity of three months or less to be cash equivalents. The Commission's financial instruments that are exposed to concentrations of credit risk consist primarily of cash, cash equivalents and investments. The Commission places cash and temporary cash investments with high quality credit institutions.

Investments: New York State statutes and guidelines, and the Commission's own investment policies, limit the investment of funds to obligations of the U.S. Government and its agencies, certificates of deposit, and obligations of the State of New York. This limitation effectively minimizes the Commission's investment related risk and returns. The Commission's investments are managed by an independent investment advisor and are stated in the statements of net position at market value.

Property and Equipment: The Commission's property, equipment, and other facilities are carried at cost and include capital grant funding from federal, state and local Governmental entities utilized to acquire, construct, and improve facilities of the Commission. Such capital funding is recorded for amounts derived from capital project grants and other resources which are restricted to facility acquisition or construction. The Commission recognizes capital funding arising from capital project grants when earned (generally when the related capital expenditure is made). Depreciation is computed on the straight-line method based on estimated useful lives of the related assets, including those financed by capital funding grants. A substantial portion of depreciation is attributable to assets purchased with capital funding under various Federal and State grants.

The estimated useful lives used in the calculation of depreciation are generally as follows:

Port marine facilities	10 to 40 Years
Furniture and equipment	5 to 10 Years
Transportation equipment	5 to 10 Years

Accrued Employee Benefits: It is the Commission's policy to record employee benefits, including accumulated vacation earned, retirement benefits and post-retirement benefits, as a liability. Commission employees are granted vacation leave in varying amounts and may carry-over unused leave, subject to stated policy limitations. In the event of termination, an employee is paid for such time.

Deferred Revenue: Deferred revenue consists principally of rents received in advance.

Retirement Benefits: The Commission provides retirement benefits for its employees through contributions to the New York State Employees' Retirement System ("ERS" or "System"). The System's retirement programs provide various plans and options, some of which require employee contributions. The Commission uses GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68) to recognize the net pension liability, deferred outflows and deferred inflows of resources, pension expense, and information about and changes in the fiduciary net position on the same basis as reported by the respective defined benefit pension plans.

ALBANY PORT DISTRICT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating Revenues: The Commission’s operating revenues are principally derived from four sources: property rentals, dockage fees, wharfage fees and security fees. Rental income is earned from tenants leasing buildings and other property owned by the Commission; dockage fees are earned from ships docked at Commission owned facilities; wharfage fees, including stevedore fees, are earned from unloading ships; and security fees are earned by providing certain security related services to tenants and others. Operating revenues also include equipment rentals, storage fees, service charges and other fees.

Operating Expenses: Operating expenses consist principally of payroll and related benefit costs, maintenance costs, material handling costs, insurance costs, professional and consulting fees, promotional expenses and utilities.

Municipal Support Agreement Costs: The Commission was a party to certain agreements which, in prior years, provided payments for municipal support to the cities of Albany and Rensselaer for certain fire protection costs and other services provided by the two municipalities (see Note 11).

Capital Funding: Capital funding represents grants, generally from federal and state funding sources, which are designated for capital asset acquisition and/or construction.

Income Taxes: The properties and income of the Commission are exempt from all Federal and State income and franchise taxes.

Estimates and Judgments: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from these estimates.

Subsequent Events: For purposes of preparing the financial statements, the Commission has considered events through March 26, 2018, the date the financial statements were available to be issued.

Reclassifications: Certain 2016 financial statement line items have been reclassified to conform with the current year's presentation.

NOTE 3 — CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following at December 31:

	<u>2017</u>		<u>2016</u>	
	<u>Carrying Value</u>	<u>Bank Balance</u>	<u>Carrying Value</u>	<u>Bank Balance</u>
Deposit accounts	<u>\$ 4,804,608</u>	<u>\$ 4,959,759</u>	<u>\$ 2,371,583</u>	<u>\$ 2,401,641</u>

At December 31, 2017 and 2016, the Commission’s cash and deposits were covered by FDIC insurance or otherwise collaterally secured through its principal financial institution, KeyBank.

ALBANY PORT DISTRICT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 4 — INVESTMENTS

At December 31, 2017, investments, which are stated on the statements of net position at market value, are comprised of certificates of deposit and U.S. Government agency obligations, as follows:

<u>Investment Rate</u>	<u>Par Amount</u>	<u>Maturity</u>	<u>Market (Carrying) Value</u>	<u>Adjusted Cost</u>
Federal Home Loan Mortgage Corp Note (1%)	\$ 150,000	6/29/2018	\$ 149,565	\$ 150,003
Federal National Mortgage Assn Note (1.05%)	500,000	2/27/2018	499,745	499,600
Federal Home Loan Banks Bond (1%)	370,000	9/6/2018	368,180	368,376
United States Treasury Bill (zero coupon)	150,000	3/1/2018	149,693	149,526
United States Treasury Note (2.625%)	350,000	1/31/2018	350,380	350,420
United States Treasury Note (1.5%)	100,000	12/31/2018	99,684	99,244
United States Treasury Note (1.125%)	300,000	1/15/2019	297,819	298,172
United States Treasury Note (1.5%)	250,000	10/31/2019	248,283	249,102
United States Treasury Note (1.125%)	100,000	6/30/2021	96,844	99,424
Ally Bank (CD; 1.05%)	120,000	4/2/2018	119,892	119,820
Bank of the West (CD; 1.45%)	245,000	5/21/2018	244,976	245,000
Citizens Bank (CD; 1.35%)	200,000	2/2/2018	200,018	200,000
Comenity Capital Bank (CD; 1.1%)	63,000	7/2/2018	62,842	62,953
Comenity Capital Bank (CD; .95%)	150,000	3/6/2018	149,865	149,550
Synchrony Bank (CD; 1%)	42,000	1/8/2018	41,997	41,962
Wells Fargo Bank (CD; 1.1%)	241,000	3/1/2018	240,920	241,000
	<u>\$ 3,331,000</u>		<u>\$ 3,320,703</u>	<u>\$ 3,324,152</u>

- (a) The adjusted cost basis reflects any cumulative original issue discount, premium, or acquisition premium (including any year-to-date amount). The amounts were amortized or accrued from the acquisition date through the disposition date. Premium amortization was calculated using the yield-to-maturity method. Acquisition premium was calculated using the ratable accrual method. Any market discount accretion for this position was calculated using the straight-line method and, if applicable, recognized upon disposition.

ALBANY PORT DISTRICT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 4 — INVESTMENTS (Continued)

At December 31, 2016, investments, which are stated on the statements of net position at market value, were comprised of certificates of deposit and U.S. Government agency obligations, as follows:

<u>Investment Rate</u>	<u>Par Amount</u>	<u>Maturity</u>	<u>Market (Carrying) Value</u>	<u>Adjusted Cost</u>
Federal Home Loan Mortgage Corp Note (1%)	\$ 150,000	6/29/2018	\$ 149,763	\$ 150,007
United States Treasury Note (.625%)	80,000	2/15/2017	80,019	80,002
United States Treasury Note (.75%)	150,000	3/15/2017	150,086	149,295
United States Treasury Note (.875%)	290,000	5/15/2017	290,296	289,987
United States Treasury Note (2.625%)	350,000	1/31/2018	356,220	355,217
United States Treasury Note (1.5%)	100,000	12/31/2018	100,582	99,244
United States Treasury Note (1.125%)	100,000	6/30/2021	96,785	99,424
Ally Bank (CD; 1%)	115,000	7/14/2017	115,258	115,074
Ally Bank (CD; .95%)	62,000	2/27/2017	62,037	61,926
American Express Federal Savings Bank (CD; 1.2%)	90,000	7/24/2017	90,104	90,159
Beal Bank USA (CD; .85%)	42,000	8/23/2017	42,005	41,959
Capital One Bank (CD; 1.2%)	152,000	8/7/2017	152,257	152,339
Comenity Capital Bank (CD; 1.1%)	63,000	7/2/2018	62,846	62,953
Comenity Capital Bank (CD; .95%)	150,000	3/6/2018	149,547	149,550
Compass Bank (CD; 1.15%)	200,000	11/30/2017	200,298	199,241
Discover Bank (CD; 1.75%)	170,000	5/2/2017	170,547	170,185
Discover Bank (CD; 1.75%)	80,000	5/9/2017	80,326	80,265
First General Bank (CD; .90%)	125,000	7/31/2017	125,228	125,072
Goldman Sachs Bank USA (CD; 1.6%)	50,000	9/26/2017	50,258	50,053
Goldman Sachs Bank USA (CD; 1.75%)	200,000	5/4/2017	200,720	200,228
Goldman Sachs Bank USA (CD; 1%)	75,000	2/27/2017	75,050	75,000
Kaw Valley Bank (CD; 2.7%)	54,000	7/24/2017	54,704	54,512
Peoples United Bank (CD; .55%)	235,000	1/20/2017	235,002	234,866
Sallie Mae Bank (CD; 1.7%)	145,000	8/22/2017	145,903	145,144
ZB Bank NA (CD; .75%)	61,000	8/25/2017	60,920	60,970
	<u>\$ 3,289,000</u>		<u>\$ 3,296,761</u>	<u>\$ 3,292,672</u>

Investments and Fair Value Measurements

Investments are carried at fair value on a recurring basis, based on current market prices. GASB No. 72, *Fair Value Measurement and Application*, establishes the fair value hierarchy, defines the requirements on how fair value should be measured and which assets should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. Recurring fair value measurements are those that GASB Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of December 31, 2017 and 2016, all investments measured at fair value were considered Level 1 investments under the fair value hierarchy.

ALBANY PORT DISTRICT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 5 — PROPERTY AND EQUIPMENT

At December 31, 2017 property and equipment is comprised of the following:

	<u>December 31 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31 2017</u>
Port marine facilities	\$ 96,727,231	\$ 91,858	\$ -	\$ 96,819,089
Transportation, equipment and furniture	1,356,136	174,959	36,870	1,494,225
Construction in process	<u>748,246</u>	<u>7,757,796</u>	<u>-</u>	<u>8,506,042</u>
Total	98,831,613	8,024,613	36,870	106,819,356
Less accumulated depreciation	<u>55,894,354</u>	<u>2,008,017</u>	<u>36,870</u>	<u>57,865,501</u>
Net property and equipment	<u>\$ 42,937,259</u>	<u>\$ 6,016,596</u>	<u>\$ -</u>	<u>\$ 48,953,855</u>

At December 31, 2016 property and equipment is comprised of the following:

	<u>December 31 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31 2016</u>
Port marine facilities	\$ 96,984,043	\$ 443,188	\$ 700,000	\$ 96,727,231
Transportation, equipment and furniture	1,301,641	72,681	18,186	1,356,136
Construction in process	<u>374,808</u>	<u>749,032</u>	<u>375,594</u>	<u>748,246</u>
Total	98,660,492	1,264,901	1,093,780	98,831,613
Less accumulated depreciation	<u>53,894,077</u>	<u>2,018,463</u>	<u>18,186</u>	<u>55,894,354</u>
Net property and equipment	<u>\$ 44,766,415</u>	<u>\$ (753,562)</u>	<u>\$ 1,075,594</u>	<u>\$ 42,937,259</u>

Depreciation expense was \$2,008,017 and \$2,018,463 for the years ended December 31, 2017 and 2016, respectively.

NOTE 6 — LONG-TERM DEBT

Long-term debt is comprised of the following:

	<u>December 31 2016</u>	<u>Debt Issued</u>	<u>Debt Payments</u>	<u>December 31 2017</u>
Bank of America master lease obligation	\$ 2,113,644	\$ 4,000,000	\$ 414,451	\$ 5,699,193
Less current maturities	<u>452,527</u>			<u>805,266</u>
	<u>\$ 1,661,117</u>			<u>\$ 4,893,927</u>

The Commission is a party to a master lease agreement with Bank of America. In June 2014, under the first draw of the agreement, the Commission borrowed \$3,000,000 to retire another Commission obligation and to acquire certain Port related facility equipment. This agreement requires monthly payments of approximately \$41,000, including interest at approximately 2.1%, with final maturity in June 2021.

In November 2017, under the second draw, of the agreement, the Commission borrowed \$4,000,000 to fund certain construction projects. This agreement requires interest only payments of approximately \$9,100 per month through May 2018, and monthly payments of approximately \$52,300, including interest at approximately 2.7%, beginning in June 2018, with final maturity in May 2025.

The Bank of America master lease obligation is collateralized by certain Commission assets.

ALBANY PORT DISTRICT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 6 — LONG-TERM DEBT (Continued)

At December 31, 2017, long-term debt maturities were comprised of the following:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 805,266	\$ 131,355	\$ 936,621
2019	1,006,301	114,726	1,121,027
2020	1,031,088	89,938	1,121,026
2021	809,028	65,616	874,644
2022	579,709	48,553	628,262
thereafter	1,467,801	50,487	1,518,288
	<u>\$ 5,699,193</u>	<u>\$ 500,675</u>	<u>\$ 6,199,868</u>

Interest expense was \$53,414 and \$49,668 for 2017 and 2016, respectively.

NOTE 7 — RETIREMENT PLAN AND RELATED BENEFITS

Introduction

Substantially all Albany Port District Commission full-time employees participate in the New York State and Local Employees' Retirement System ("System" or "ERS"). The System is a cost-sharing multiple-employer defined benefit plan administered by the State Comptroller. Plan benefits, including retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries are provided under the provisions of the New York State Retirement and Social Security Law and are guaranteed under the State Constitution. In general, retirement benefits are determined based on an employee's individual circumstances using a pension factor, an age factor, and final average salary. The benefits vary depending on the individual's employment tier. Pension factors are determined based on tier and an employee's years of service, among other factors. The System issues a financial report that includes financial statements and other information for the System which is available to the public. The financial report may be obtained from the New York State and Local Employees' Retirement System at www.osc.state.ny.us/retire.

No employee contribution is required for those hired prior to July 1976. The System requires employee contributions of 3% of salary for the first 10 years of service for those employees who joined the System from July 1976 through December 2009. Participants hired on or after January 1, 2010 through March 31, 2012 are required to contribute 3% of compensation throughout their active membership in the System. Participants hired on or after April 1, 2012 are required to contribute a percentage ranging from 3% to 6% each year, based on their level of compensation. The Comptroller annually certifies the rates used, expressed as a percentage of the wages of participants, to compute the contributions required to be made by the Commission to the pension accumulation fund. For 2017, these rates ranged from 9.3% - 19.8% for the Commission's active employees. Employee contributions are deducted from their salaries and remitted on a current basis to the System.

Net Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources

At December 31, 2017, the Commission reported a liability of \$351,607 for its proportionate share of the ERS net pension liability. The ERS net pension liability was measured as of March 31, 2017, and the total pension liability was determined by an actuarial valuation as of April 1, 2016, with updated procedures used to roll forward the total pension liability to March 31, 2017. The Commission's proportion of the net pension liability was based on the ratio of its actuarially determined employer contribution to ERS's total actuarially determined employer contribution for the fiscal year ended on the measurement date. At the March 31, 2017 measurement date, the Commission's proportion was 0.003742%.

ALBANY PORT DISTRICT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 7 — RETIREMENT PLAN AND RELATED BENEFITS (Continued)

Net Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources (Continued)

At December 31, 2016, the Commission reported a liability of \$634,538 for its proportionate share of the ERS net pension liability. The ERS net pension liability was measured as of March 31, 2016, and the total pension liability was determined by an actuarial valuation as of April 1, 2015, with updated procedures used to roll forward the total pension liability to March 31, 2016. The Commission's proportion of the net pension liability was based on the ratio of its actuarially determined employer contribution to ERS's total actuarially determined employer contribution for the fiscal year ended on the measurement date. At the March 31, 2016 measurement date, the Commission's proportion was 0.0039534%.

For the year ended December 31, 2017, the Commission recognized net pension expense of \$215,484 from ERS and reported deferred outflows and deferred inflows of resources as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 8,811	\$ 53,393
Changes in assumptions	120,122	-
Net difference between projected and actual earnings on pension plan investments	70,230	6,884
Changes in proportion and differences between Commission contributions and proportionate share of contributions	39,691	-
Commission contributions subsequent to measurement date	-	-
	<u>\$ 238,854</u>	<u>\$ 60,277</u>

For the year ended December 31, 2016, the Commission recognized net pension expense of \$240,605 from ERS and reported deferred outflows and deferred inflows of resources as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 3,206	\$ 75,214
Changes in assumptions	169,212	-
Net difference between projected and actual earnings on pension plan investments	376,443	-
Changes in proportion and differences between Commission contributions and proportionate share of contributions	45,861	-
Commission contributions subsequent to measurement date	-	-
	<u>\$ 594,722</u>	<u>\$ 75,214</u>

ALBANY PORT DISTRICT COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 7 — RETIREMENT PLAN AND RELATED BENEFITS (Continued)

Net Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources (Continued)

Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ending June 30,</u>	<u>Net Deferred Outflows and Inflows of Resources</u>
2018	\$ 80,628
2019	80,628
2020	64,314
2021	<u>(46,993)</u>
	<u>\$ 178,577</u>

Actuarial Assumptions

For ERS, the actuarial assumptions used in the April 1, 2016 valuation, with update procedures used to roll forward the total pension liability to March 31, 2017, were based on the results of an actuarial experience study for the period April 1, 2010 to March 31, 2015. These assumptions are:

Inflation – 2.5%

Salary increases – 3.8%

Investment rate of return – 7.0% compounded annually, net of investment expense, including inflation

Mortality – Based on ERS experience from April 1, 2010 – March 31, 2015 with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014

Discount rate – 7.0%

The actuarial assumptions used in the April 1, 2015 valuation, with update procedures to roll forward the total pension liability to March 31, 2016, were based on the results of an actuarial experience study for the period April 1, 2010 to March 31, 2015. These assumptions are:

Inflation – 2.5%

Salary increases – 3.8%

Investment rate of return – 7.0% compounded annually, net of investment expense, including inflation

Mortality – Based on ERS experience from April 1, 2010 – March 31, 2015 with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014

Discount rate – 7.0%

ALBANY PORT DISTRICT COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 7 — RETIREMENT PLAN AND RELATED BENEFITS (Continued)

Actuarial Assumptions (Continued)

The long-term expected rate of return on the System's pension plan investments was determined in accordance with Actuarial Standard of Practice No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*. Consideration was given to expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for each major asset class as well as historical investment data and plan performance.

Investment Asset Allocation

The System's best estimate of arithmetic real rates of return for each major asset class and the System's target asset allocations as of the applicable valuation dates are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equities	36%	4.55%
International equities	14%	6.35%
Private equities	10%	7.75%
Real estate	10%	5.80%
Absolute return strategies	2%	4.00%
Opportunistic portfolio	3%	5.89%
Real assets	3%	5.54%
Bonds and mortgages	17%	1.31%
Cash	1%	-0.25%
Inflation-Indexed bonds	4%	1.50%
	100%	

Discount Rate

The discount rate projection of cash flows assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following table presents the Commission's proportionate share of its net pension liability calculated using the discount rate of 7.0% and the impact of using a discount rate that is 1% higher or lower than the current rate.

	1.0% Decrease	7.0%	1.0% Increase
Commission's proportionate share of the ERS net pension liability (asset)	\$ 1,122,963	\$ 351,607	\$ (300,573)

ALBANY PORT DISTRICT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 7 — RETIREMENT PLAN AND RELATED BENEFITS (Continued)

Other Information

Other information on the Commission's net pension liability is as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Commission's proportion of the System's net pension liability	0.003742%	0.0039534%	0.0037280%
Commission's proportionate share of the System's net pension liability	\$ 351,607	\$ 634,538	\$ 125,953
Commission's covered-employee payroll	\$ 997,333	\$ 1,000,106	\$ 1,018,736
Commission's proportionate share of the System's net pension liability as a percentage of its covered-employee payroll	35.25%	63.45%	12.36%
Plan fiduciary net position as a percentage of the total pension liability	94.70%	90.70%	97.90%

Actuarial data prior to 2015 is unavailable.

A schedule of Commission's contributions to the System is as follows:

<u>March 31</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Contractually required contribution	\$ 157,484	\$ 186,364	\$ 234,306	\$ 180,550	\$ 151,392	\$ 119,125	\$ 111,408	\$ 20,025
Contribution in relation to the contractually required contribution	<u>(157,484)</u>	<u>(186,364)</u>	<u>(234,306)</u>	<u>(180,550)</u>	<u>(151,392)</u>	<u>(119,125)</u>	<u>(111,408)</u>	<u>(20,025)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Commission's covered-employee payroll	<u>\$ 997,333</u>	<u>\$ 1,000,106</u>	<u>\$ 1,018,746</u>	<u>\$ 861,386</u>	<u>\$ 726,234</u>	<u>\$ 711,985</u>	<u>\$ 739,670</u>	<u>\$ 544,045</u>
Contributions as a percentage of covered-employee payroll	<u>15.79%</u>	<u>18.63%</u>	<u>23.00%</u>	<u>20.96%</u>	<u>20.85%</u>	<u>16.73%</u>	<u>15.06%</u>	<u>3.68%</u>

Actuarial data prior to 2010 is unavailable.

NOTE 8 — OTHER POST-EMPLOYMENT BENEFITS

The Commission provides certain health care benefits for retired employees and their covered dependents. Employees of the Commission become eligible for those benefits if they reach normal retirement age while working for the Commission. The Commission recognizes the cost of providing post-retirement health insurance benefits according to GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, prospectively. This Statement established standards for the recognition, measurement, and display of other postemployment benefits (retiree health insurance) expenses and related liabilities and note disclosures.

ALBANY PORT DISTRICT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 8 — OTHER POST-EMPLOYMENT BENEFITS (Continued)

Plan Description

The Commission administers its retiree health insurance plan (the Plan) as a single-employer defined benefit other postemployment benefit (OPEB) plan. The Plan provides for continuation of medical insurance benefits for qualifying retirees and their covered dependents and can be amended by action of the Commission. The Plan does not currently issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

Funding Policy

The Commission pays the full cost of eligible retiree health insurance. The Commission currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis, with the possibility of pre-funding additional benefits if so determined by the Commission. The Commission contributed approximately \$75,900 and \$48,400 for current premiums in 2017 and 2016, respectively. The costs of administering this Plan are paid by the Commission.

Funded Status and Funding Progress

The schedule of funding progress presents multiyear trend information that is useful in determining whether the actuarial value of plan assets, if any, is increasing or decreasing over time relative to the actuarial accrued liability. The following tables set forth the actuarial accrued liability and funded status of the Plan as of December 31, 2016, the most recent valuation date, with estimated liability and other information provided as of December 31, 2017 and December 31, 2016, as applicable. Valuations are currently prepared every three years, as required by GASB 45.

	<u>2017</u>	<u>2016</u>
<u>Actuarial Accrued Liability (AAL)</u>		
Currently retired	\$ 3,027,117	\$ 3,003,101
Active employees	1,548,629	1,536,343
Actuarial accrued liability	<u>4,575,746</u>	<u>4,539,444</u>
Actuarial value of plan assets	<u>-</u>	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 4,575,746</u>	<u>\$ 4,539,444</u>
Funded ratio	<u>0%</u>	<u>0%</u>
Normal cost	<u>\$ 122,208</u>	<u>\$ 120,906</u>

The following table summarizes the amortization calculation of the UAAL as of the latest valuation date:

	<u>2017</u>	<u>2016</u>
UAAL	\$ 4,575,746	\$ 4,539,444
Amortization period (years)	30	30
Amortization discount rate	2.50%	2.50%
Present value factor	17.18	17.77
UAAL amortization amount	\$ 266,271	\$ 255,521

ALBANY PORT DISTRICT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 8 — OTHER POST-EMPLOYMENT BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation

The Commission's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Commission's annual OPEB cost:

	<u>2017</u>	<u>2016</u>
Normal cost	\$ 122,208	\$ 120,906
Amortization of UAAL	266,271	255,521
ARC	388,479	376,427
Interest on OPEB obligation	57,175	51,358
Adjustment to ARC	(133,086)	(115,635)
OPEB expense	<u>\$ 312,568</u>	<u>\$ 312,150</u>

The following table reconciles the Commission's OPEB obligation at December 31:

	<u>2017</u>	<u>2016</u>
Net OPEB obligation at beginning of year	\$ 2,315,790	\$ 2,052,051
Annual OPEB expense	312,568	312,150
Annual OPEB contributions	(75,886)	(48,411)
Net OPEB obligation at end of year	2,552,472	2,315,790
Less: estimated current portion of OPEB obligation	77,000	77,000
Estimated long-term portion of OPEB obligation	<u>\$ 2,475,472</u>	<u>\$ 2,238,790</u>
Percentage of expense contributed	<u>24.3%</u>	<u>15.5%</u>

Trend Information

<u>Year Ended</u>	<u>Beginning OPEB Obligation</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2015	\$ 1,761,997	\$ 333,322	\$ 43,268	13.0%	\$ 2,052,051
12/31/2016	2,052,051	312,150	48,411	15.5%	2,315,790
12/31/2017	2,315,790	312,568	75,886	24.3%	2,552,472

Actuarial Methods and Assumptions

The projected unit credit actuarial cost method was used to estimate the Commission's OPEB obligation. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made

ALBANY PORT DISTRICT COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 8 — OTHER POST-EMPLOYMENT BENEFITS (Continued)

Actuarial Methods and Assumptions (Continued)

about the future. Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs (if any) between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The measurement date for the calculation was December 31, 2016 and the discount rate utilized was 2.50%. No salary increases were assumed since benefits are not based on compensation. Health care costs were assumed to increase as follows:

<u>Year</u>	<u>Trend Increase</u>
2018	5.90%
2019	5.60%
2020	5.30%
2021	5.30%
2022	5.29%
2023	5.29%
2024	5.29%
2025	5.29%
2030	5.29%
2040	5.29%
2050	4.91%
2060	4.73%
2070	4.21%
2080+	3.94%

An additional 1% increase in the health care trend rate would have a material adverse effect on the OPEB obligation.

NOTE 9 — PROPERTY HELD FOR LEASE

The Commission has entered into various operating leases with tenants for the use of space at Port owned buildings, terminals, offices, and other facilities. The approximate minimum future rentals scheduled to be received on operating leases in effect on December 31, 2017 were as follows:

2018	\$ 2,563,000
2019	2,347,000
2020	2,321,000
2021	2,168,000
2022	1,843,000
Thereafter	<u>7,925,000</u>
	<u>\$ 19,167,000</u>

ALBANY PORT DISTRICT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 10 — WATERFRONT DEVELOPMENT COSTS

The Commission is committed to supporting the City of Albany’s efforts in developing the Corning Preserve and Hudson River waterfront. In this regard, during 2002, the Albany Industrial Development Agency (AIDA) issued \$4,390,000 in Civic Facility Revenue Bonds for the benefit of Capitalize Albany Corporation (CAC), for construction relating to the Corning Preserve/Hudson Riverfront Development Project. The majority of the net proceeds of the Revenue Bonds were utilized to fund various improvements to the project site for recreational and entertainment uses. Concurrent with the issuance of the bonds, CAC and the Commission entered into a shared use and lease agreement, under which CAC leases the project to the Commission for a 30 year lease term. At the end of the lease term, in 2033, the agreement provides that the project improvements are owned by CAC. Accordingly, all current improvements made to the project by the Commission are expensed when incurred by the Commission.

Under the shared use and lease agreement, which is accounted for as an operating lease by the Commission, the Commission is obligated to fully fund CAC’s obligations relating to the project, including the funding of installment payments sufficient to cover all related bond debt service and certain other contractual improvement and operating expenses. The AIDA/CAC bonds are 25 year variable rate demand obligations, currently bearing interest at approximately 1.18%, with rates established weekly by a remarketing agent. As such, the Commission’s annual lease obligation will likely change on a year-to-year basis and, in an increasing interest rate environment, these changes may be material.

The bonds are secured by a letter of credit issued by Key Bank and guaranteed by the Commission. Under the letter of credit, any grant proceeds received for the project are required to reduce the outstanding bonds. The letter of credit requires future principal debt reduction payments, ranging from \$190,000 in 2018 to \$255,000 in 2024, thus providing for the full amortization of the bonds by the 2027 maturity date.

Future debt reduction payments are expected as follows:

<u>Year Ending</u>	<u>Amount</u>
2018	\$ 190,000
2019	200,000
2020	210,000
2021	220,000
2022	225,000
Thereafter	<u>495,000</u>
	<u><u>\$ 1,540,000</u></u>

The bonds have no prepayment constraints and, as such, holders have the option to redeem bonds at any time. The letter of credit terms, as disclosed above, may also impact the Commission’s annual lease obligation.

During 2017 and 2016, the Commission’s total lease cost, project improvement cost, and other operating expenses related to the waterfront development project approximated \$250,000 and \$243,000, respectively. These costs are included in the statements of revenues and expenses.

ALBANY PORT DISTRICT COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 11 — COMMITMENTS AND CONTINGENCIES

Claims and Litigation

The Commission is a defendant in various claims, lawsuits and actions arising in the normal course of operations. In the opinion of the Commission's management, the ultimate amount of any liabilities which may be incurred in connection with the settlement of claims and litigation will not materially affect the Commission's financial condition.

Municipal Support Agreement Costs

In 2015, the Commission entered into Memorandums of Understanding (MoU) with the City of Albany and the City of Rensselaer under which the Commission agreed to fund certain firefighting, emergency response, and other municipal support services provided by the two cities through August 31, 2016. The expense associated with the MoU's in the amounts of \$400,000 for 2016 and are included in the statements of revenues and expenses. The Commission incurred no support agreement costs subsequent to August 31, 2016.

Federal and State Grants

The Commission is currently undertaking a series of projects to finalize maritime infrastructure improvements which will enhance the Port's heavy lift and project cargo handling capabilities. The total projects are estimated to cost approximately \$49,630,000. As part of the project, the Commission has secured federal grant funding of approximately \$17,630,000 and state grant funding of approximately \$19,000,000. Federal grant revenue of approximately \$1,226,000 was earned in 2017 (none in 2016). State grant revenue of approximately \$6,610,000 and \$627,000 was earned in 2017 and 2016, respectively. These grant revenues are included in capital grant funding in the statements of revenues and expenses and changes in net position. The projects are expected to be completed in 2021.

The Commission's grants are subject to audit by agencies of the Federal and State governments. Such audits may result in disallowances and a request for a return of funds to the Federal and State governments.

SUPPLEMENTARY INFORMATION

ALBANY PORT DISTRICT COMMISSION
SCHEDULES OF PAYROLL AND RELATED COSTS AND
OTHER OPERATING EXPENSES
Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<i>PAYROLL AND RELATED COSTS</i>		
Administrative	\$ 912,314	\$ 936,721
Maintenance crews and supervisor	379,792	344,028
Security	388,855	331,911
Pension and other benefit costs	513,314	566,078
OPEB expense	312,568	312,150
Payroll taxes	<u>126,225</u>	<u>123,428</u>
Total payroll and related costs	<u><u>\$ 2,633,068</u></u>	<u><u>\$ 2,614,316</u></u>
<i>OTHER OPERATING EXPENSES</i>		
Security	\$ 30,349	\$ 43,880
Utilities	49,122	54,710
City water	8,075	7,135
Advertising and promotion	74,310	75,603
Office supplies and expenses	75,879	74,345
Telephone	26,841	24,057
Snow removal	8,848	2,164
Equipment operating expense	97,549	64,127
Other expenses	<u>120,583</u>	<u>83,108</u>
Total other operating expenses	<u><u>\$ 491,556</u></u>	<u><u>\$ 429,129</u></u>

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS, INCLUDING COMPLIANCE WITH INVESTMENT GUIDELINES, BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Commissioners
Albany Port District Commission

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Investment Guidelines for Public Authorities issued by the Office of the State Comptroller, State of New York, the financial statements of the Albany Port District Commission (the "Commission") as of and for the year ended December 31, 2017, and have issued our report thereon dated March 26, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, including Investment Guidelines for Public Authorities and the Commission's Investment Guidelines, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

UHY LLP

Albany, New York
March 26, 2018